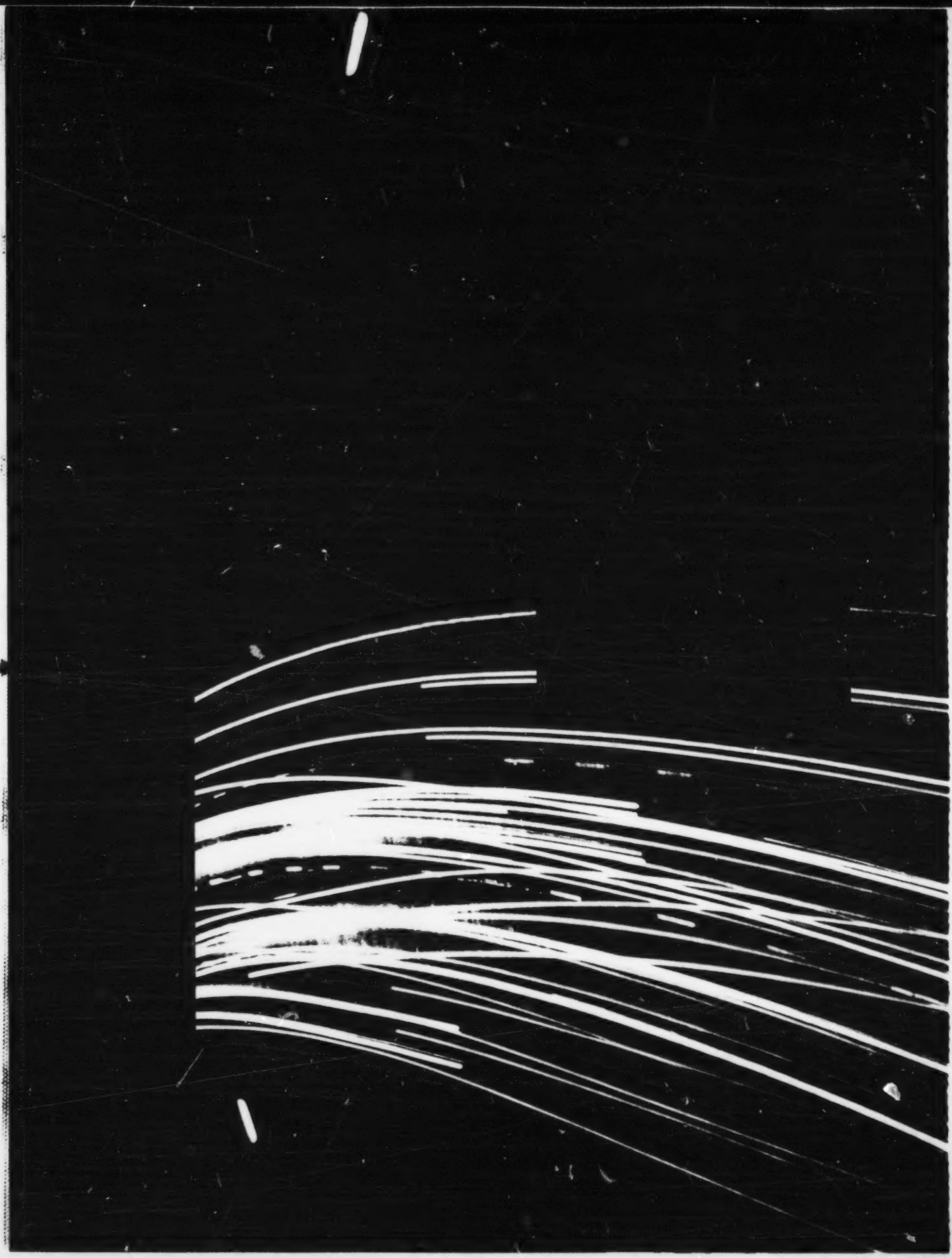

A NETWORK FOR GROWTH

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Come travel

We are destined for the superhighways of the future. Highways without speed limits, with no traffic congestion, that reach from our homes to our communities and around the world.

These highways are AGT's network. And our 1990's network will dramatically change how we live, work and play. Voice messages aren't the only travellers along our network highways; they are being joined by data, graphic image and full-motion video transmission.

At AGT, we believe we're only as good as our network. That's why we've invested in network development since 1906. And when in 1980, we began a multi-million dollar program to prepare for the new decade with full digital switching, fibre optics and an extensive selection of new customer services.

This report is about our network and how our investment in the network readies us for increased competition by:

- positioning the company to anticipate and respond to the needs of customers;
- encouraging continued technological innovation; and
- maximizing the return on investment.

Travel with us and share our excitement.

DESCRIPTION OF BUSINESS

GT is Alberta's largest telecommunications company, with total assets of $2.8 billion and annual revenues of $1.2 billion.

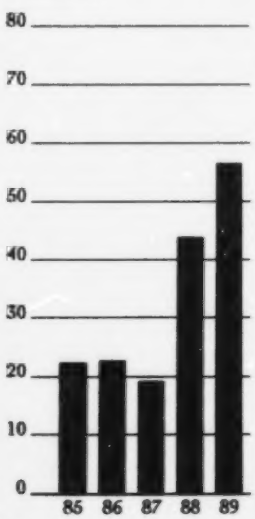
The company was established in 1906 to provide basic telephone service. Areas of business now include local and long distance voice, data and video transmission, telephone terminal equipment, business systems, directory services and Alberta's largest public and private mobile networks. The company also provides its 2.4 million customers with universal connectivity beyond Alberta through Telecom Canada.

AGT is a regulated crown corporation, owned by the Alberta government. Unregulated wholly-owned subsidiary companies include NovAtel Communications Ltd., Canada's only manufacturer of cellular telephones and systems; Alta-Telecom International Ltd. (ATI), specializing in consulting services and customized telecommunications systems overseas, and operating in the United States under ATInc.; and Alta-Can Telecom Inc., investing venture capital in start-up technology-based Alberta businesses.

1989 HIGHLIGHTS

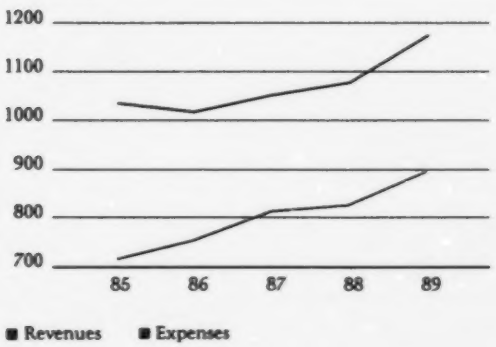
(millions)	*Percentage Change*	1989	1988
Financial			
Operating revenues	9.3	$1,171.3	$1,071.4
Operating expenses	8.2	893.7	826.3
Net income	27.7	56.6	44.3
Cash generated by operations	(26.1)	207.7	281.2
Capital expenditures	5.9	443.8	419.0
Plant investment–gross	6.5	3,764.7	3,535.1
–net	8.3	2,289.3	2,113.0
(thousands)			
Operational			
Network access lines	4.1	1,063.0	1,021.1
(millions)			
Long distance messages	13.0	327.4	289.8
Messages per line	8.5	308	284

Consolidated Net Income
($ millions)



SHARP GROWTH FOR SECOND CONSECUTIVE YEAR

Comparison of Operating Revenues to Operating Expenses
($ millions)



1989 HIGHLIGHTS

- Completed third year of network upgrading program on schedule
  - 81 switches converted to digital technology for a total of 200 since 1986
  - 56% of customer lines now fully digital
  - provided 26,000 party line customers with Individual Line Service
- Achieved a 27.7% increase in net income to $56.6 million
- Introduced Total Quality Management as an ongoing company-wide initiative
- Began customer field trials of Custom Calling Services and Integrated Services Digital Network (ISDN)
- Expanded Alberta's largest cellular network to include corridors west of Red Deer to Rocky Mountain House and east to Stettler
- Opened Expotel in the AGT Tower in Calgary, which in one location provides sophisticated network management, new product and service demonstrations, and previews of future technology
- Opened VideoForum Conference Centre in Calgary's Dome Tower for worldwide commercial videoconferencing
- Opened first business centre in Edmonton
- Expanded four-color Yellow Pages advertising across Alberta

Dr. P.N. Webber,
Chairman

H.B. Hobbs,
Retiring Chairman

H.M. Neldner,
President & Chief Executive Officer

EXECUTIVE MESSAGE

Network for the 90's: Telecommunications for Tomorrow

The highways of the future are another year closer to reality–the high-speed, sophisticated superhighways that will form our 90's network.

Next to our employees, our network is AGT's greatest strength. And the improvements we're making only increase the importance of the network as our core business. However, upgrading a network isn't necessarily news. What's unique at AGT is the geographic scope of our upgrading program, the speed at which we're completing it and the investment we're making to ensure our network is universally available and readily adaptable to emerging technological innovations.

In 1989, network upgrading expenditures totalled $202 million, or 45% of total capital expenditures of $444 million. Network investment over the next three years will exceed $400 million. By 1992, this upgrading program will see all party lines in Alberta–106,000–replaced with individual lines; conversion of all network switches to digital processing; and the use of fibre optics as our major transmission technology.

1990 marks the fourth year of this major network upgrading. Considering such intensive year-over-year capital expenditures, our projections in all areas of business call for increased revenues as our customers receive the benefits of what we anticipate will be Canada's first fully-digital telecommunications network.

Reaping the Benefits of An Advanced Network

The sophistication and capabilities we are building into our Alberta network will strongly contribute to AGT's growth in the following decade. In addition to securing our position as the highest-quality provider of services within Alberta, the AGT network will offer global connectivity of a calibre never before experienced by telephone customers.

Our 1990's network will benefit our customers and the company in three key ways:

- *positioning the company to anticipate and respond to the needs of customers*

Our network will be able to offer customers the best of both worlds: brains and brawn. Digital switching, together with highly-customized software systems, are making the network "intelligent", and so too the new generation of products and services we will provide.

Our network's "muscle" is fibre optics, a broadband technology with tremendous capacity. As we increase the range of services to our customers, more bandwidth will be needed into homes and businesses. AGT's fibre network will have virtually unlimited capacity and potential for expansion.

A smart network will help us improve customer service quality. Customers will gradually have more control in choosing and "turning up" their own services, and our product lines will achieve a higher degree of customer satisfaction.

- *encouraging continued technological innovation*

Our current upgrading program is only the beginning of an ongoing process of network improvement. We're building a technological foundation that will give us the ability to expand and refine our services beyond the year 2000.

- *maximizing the return on investment*

With a completely upgraded network, we project steady and major revenue increases as we enter the 1990's, particularly in the 1993-1996 period. There will be growing demand for information: acquiring, processing and storing it. Creative products and services from AGT will stimulate important new streams of revenue. Moreover, the company will realize major efficiencies through fibre optic transmission and 100% digital switching.

Strong Performance for AGT in 1989

AGT in 1989 experienced good growth in business volumes and net income, despite lower long distance rates and modest economic performance across Canada.

Net income rose 27.7% to $56.6 million.

Long distance calling increased 13% or 37.6 million additional messages, for a total of 327.4 million messages. Long distance service revenues, however, increased by only 3.8% to $773 million, a reflection of the full-year impact of rate reductions–averaging 17%–introduced in August, 1988.

Supreme Court Decision Reached

In mid-August, the Supreme Court of Canada announced its decision in the jurisdictional case involving AGT and CNCP Telecommunications. At issue was whether or not AGT fell under provincial or federal regulation. AGT, operating primarily within Alberta, has traditionally been regulated provincially. The Court ruled AGT was a federal "undertaking" and therefore, subject to federal jurisdiction. However, the Court also found that existing federal statutes exclude crown companies from federal regulation.

A committee formed by Alberta's telecommunications minister has assumed the regulatory duties of the Alberta Public Utilities Board.

Regional Input Provided to National Telecommunications Policy

The Supreme Court's decision in AGT vs. CNCP has strengthened federal government efforts to establish a national telecommunications policy. Such a policy will affect the structure of our industry in Canada and may lead to long distance competition. A policy promoting regulated competition raises concerns about basic local telephone service: will subsidization from long distance still be sufficient to provide universal service to customers at affordable rates? What responsibilities should new competitors have in regards to basic service?

AGT, together with our regional counterparts, will contribute to this critical discussion on how our industry is to be regulated. Addressing the concerns cooperatively will ensure development of a telecommunications policy that benefits all Canadians.

Additionally, as part of our dialogue with the federal government, we hope to address the need for changes to Canada's overall regulatory framework. We believe that incentive-type regulation should be considered as an alternative to the current "rate of return" method. Adopting a more enlightened approach to regulation should lead to increased efficiencies, improved service and lower costs to our customers.

"Total Quality" Introduced to Achieve Full Customer Satisfaction

Late in the year, we introduced the concept of Total Quality Management to AGT. More than a project or program, the quality discipline is an approach to continually improve all processes in our company– whether it's handling a customer inquiry or responding to a service problem.

During 1990, Total Quality Management will be initiated in all business units and corporate departments. It represents AGT's commitment to excellence–involving everyone in the company–in meeting the valid expectations of our customers, suppliers and employees.

Privatization

Privatization of AGT is an objective of the Alberta government. It has been under review in recent years and will likely be addressed in 1990. Considering this, we can confidently report that AGT is well prepared to operate as an investor-owned corporation.

Since the mid-1980's, we've been positioning the company to operate in a more competitive, global telecommunications environment. We adapted our management structure and brought our key businesses closer to our customers; we increased our commitment to highly-skilled, motivated employees; and began upgrading our network to deliver the imaginative products and services that will be demanded in the new decade.

Appointment of New Chairman Among Executive Changes

During the year, Harry B. Hobbs retired as Chairman of AGT. Since his appointment in August,1983, his enthusiasm for telecommunications as a major instrument in the economic development of Alberta has greatly benefited the company, customers and Albertans.

Mr. Hobbs diversified the company's operations and refocused the organization to better respond to our customers' requirements. We would like to express our gratitude and respect for his much-valued leadership. He continues to serve as an AGT board member and chairman of our subsidiary companies, ATI Ltd. and ATInc.

Dr. Neil Webber was appointed AGT Chairman in November. Dr. Webber served as a member of the Commission from 1975 to 1979, and chairman and associate minister of telephones from 1979 to 1982. His vision and experience are welcomed as we prepare for the challenge of a new decade.

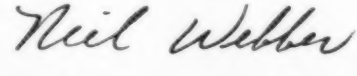
The new role of Vice-President, Total Quality Management, was assumed by Bill Stuart, formerly Assistant Vice-President, Operations–Network Services. Other senior management changes include the retirement of a valued 30-year employee, Harry Stetch, General Manager of Mobile Communications. Ron Ades now heads up Mobile –one of AGT's most demanding business units. Bill Montgomery, who brought energy and drive to the position of Vice-President, Human Resources, left the company to pursue interests outside Alberta. Peter McLean, formerly Assistant Vice-President of Network Services, succeeds Bill in this position.

The Value of AGT's "People" Network

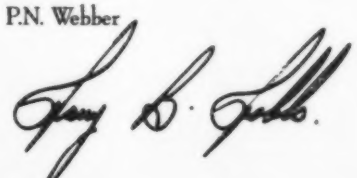
Although this report chronicles our excitement about the technical network we will have in the 1990's, the "people" network being developed at AGT will give us a sustaining competitive advantage.

In recent years, our employees have been buffeted by seemingly endless change, and we've all had to retool our thinking to succeed in a "fast forward" world. Our people are proving their adaptability and resolve. Their enthusiastic participation and dedication made 1989 a year of growth and progress.

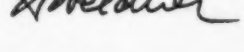
We have not only the right network for the 1990's, but more importantly, the right people: competent, committed and quality-minded.



P.N. Webber



H.B. Hobbs



H.M. Neldner

NETWORK FOR THE 90'S: A PREVIEW

IMAGINE A TELEPHONE NETWORK CONNECTING YOU INSTANTLY AND EFFORTLESSLY TO ANY POINT IN THE WORLD. A NETWORK THAT LETS YOU DECIDE WHICH CALLS YOU WANT TO ACCEPT – EVEN BEFORE THE CALL IS ANSWERED. A NETWORK THAT TEACHES YOUR CHILDREN RIGHT IN YOUR OWN HOME. A NETWORK THAT LETS YOU SEND AND RECEIVE VOICE, TEXT AND VIDEO IN ANY COMBINATION YOU WANT JUST BY "PLUGGING IN." THOSE ARE THE POSSIBILITIES – AND SOON, THE REALITIES – OF AGT'S NETWORK OF THE FUTURE.

How Our Network Developed

Through continuous investment over more than eight decades, AGT is recognized as a world leader in network development.

Beginning with the launch of telephone service at the turn of the century, the company has consistently made advances in every facet of telecommunications: mobile systems, microwave transmission, buried cable, fibre optics and digital switching.

In 1986, AGT launched a multi-million dollar program to prepare for a new era of network services. The program, which includes conversion of all switches to digital technology, will be finalized across Alberta by 1992.

AGT's network for the 90's will be the basis for the greatest variety of services imaginable–services that meet and aim to exceed customers' expectations, encourage continued technological innovation and maximize return on investment.

100% Digital Switching Soon a Reality

Imagine a network with the brains to think on its own–in fact, a network powered by thousands of *electronic* brains, all linked in a single stream of consciousness, responding to the immediate touch of a finger.

Switches driven by sophisticated software make microsecond decisions on routing calls . . . or instantly know how a customer wants busy calls handled. Ultimately, there will be intelligence enough to tailor services in whatever way the customer wants.

That's the network AGT is building: fully digital and computer-smart.

As early as 1978, AGT introduced digital switching to the network. Since that time, digital processing has come to be regarded as the only choice for quality telecommunications. Much like the audio compact disk or home personal computer, conversion of our network to digital provides an incomparable level of efficiency, performance, speed and reliability.

CUBS TOLL COMPLETION

New Custom Calling Services to Give Customers More Control

Imagine a network that gives you more control than ever before.

You decide which calls you want to accept and when you want to accept them–even before you pick up the phone. That's the dramatic shift of power coming on our 90's network, and it's coming in the form of Custom Calling Services (CCS). They mark a new era in which the balance of knowledge concerning calls is equalized.

One of the major benefits of the latest Custom Calling Services is the ability for customers to identify in advance who's calling them, and to specify in advance how they'd like the network to handle the call. That important feature alone paves the way for complete customization. Just as you have a distinctive taste in decorating, so too can you soon "design" your own home communications–CCS is just the start.

AGT has already packaged an initial portfolio of new Custom Calling Services, expected for release to many areas in 1990. In addition to Calling Number Identification, imagine being able to automatically scan a busy line until it's free, or immediately trace annoying calls or instantly redial the last incoming message,

Redefining the Single Telephone Line: ISDN

Imagine a network that can handle all kinds of traffic. At once.

A network that can squeeze the equivalent of a semi-trailer truck, a motor home and a mid-size car all in the same lane and all going the same direction. We call it "integrated" communications–another significant benefit of a digital network.

Previously on the network, different vehicles had to use different roads: one line to talk, one for computer data, another to videoconference. That all changes as AGT implements the Integrated Services Digital Network (ISDN). ISDN will form part of AGT's overall network, making it possible to transmit our voices, our computer work, even video pictures, together over one single line–the kind of line you just "plug in" the way you do at home now.

ISDN will allow inexpensive videoconferencing from a customer's desktop, shared computer screens thousands of miles apart, as well as high-speed digital FAX. Though ISDN will at first be marketed to businesses, the 1990's will see applications developed for residence customers.

Fibre Optics: Speed-of-Light Travel on the Network Superhighway

Imagine a network capable of bringing a vast range of information and entertainment services directly into the home: first-run movies, interactive learning programs, financial transactions, restaurant reservations.

In the future, only one technology will have the capacity to handle those kinds of services–fibre optics, also referred to as "broadband" technology. Fibre is the truly congestion-free superhighway of telecommunications. Comparing it to traditional copper wire proves the point: a cable with 600 pairs of copper wire can carry 14,400 conversations; a *single pair* of glass fibres can carry 16,128 conversations.

No matter how thick the traffic–voice, video signals or data transmission–fibre has the capacity to move information at the speed of light.

AGT accomplished a world first in the use of high-capacity fibre optics in 1981. Today, most of our main trunk routes and many connecting routes between switches are fibre. AGT will increase the placement of fibre throughout the network and by the mid-1990's, virtually all switches will be served by fibre optics.

Ultimate Mobility on a Cellular Network

Imagine a network that travels just as far as you do.

A call forwarded from Calgary reaches you while you're driving near Slave Lake. You FAX a document for signature before leaving Grande Prairie and receive it back, signed, just outside Edmonton. You're standing in the corn fields of Taber conducting a conference call with associates in Halifax and Miami. Your mobile telephone fits inside a pocket.

That's AGT cellular in the 1990's. AGT pioneered Cellular 400 technology in the early 1980's, providing rural mobile service to virtually all populated areas of the province. Cellular 800 now covers many major centres and will continue to be expanded during the next decade.

The company's ownership of NovAtel, Canada's only manufacturer of cellular systems, ensures continued innovations in both cellular phones and cellular transmission. One of the most promising developments for the 90's will be digital cellular, delivering the same speed and quality of the digital network, along with phones providing cordless "palm of your hand" convenience.

Developing the Self-Healing Network

Imagine a network that can fix itself.

A network that can identify problems and correct them transparently with no loss of service to the customer. A network that checks its own vital signs throughout the day. It's called survivability and it's a leading area of AGT's funding for research and development.

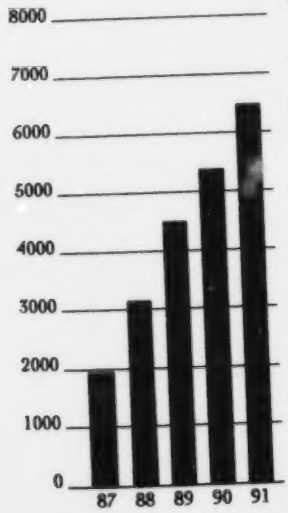
AGT has also introduced a new Network Management Centre, one of the most advanced in North America, monitoring every aspect of network operations 24-hours-a-day. The Centre not only keeps tabs on operations in Alberta but right across Canada, and also has the capability to monitor a specific customer's dedicated network. That ensures the highest possible level of reliability for all customers.

Goal of All-Digital Network by 1992 on Target

The development of AGT's network towards full digital switching continues to accelerate. In 1989, 81 switches were converted, bringing the total of digital switches to 200. This represents 56% of the 372-switch network.

AGT's investment in digital technology provides the capacity required to serve predicted demand from Individual Line Service (ILS) and expanded Extended Flat Rate Calling (EFRC). The company foresees cost savings in productivity and reduced overhead due to the use of modern equipment and facilities of a standard design. In addition to cost recovery from economies of scale, AGT can potentially recover service development and marketing costs through revenues from expanded markets for these existing and new services.

As AGT's switching capability accelerates, another technology is enabling our communications to travel at the speed of light: fibre optics.



FIBRE WILL BE MAIN TRANSMISSION TECHNOLOGY IN 1990'S

Use of Fibre Optics Continues to Grow

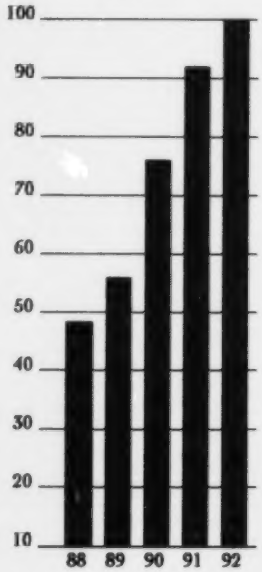
At the end of 1989, 4,500 kilometres of fibre had been placed in AGT's network. In November, the final splice was made in AGT's portion (690 km) of the first cross-Canada fibre optics system. It took place at Pocahontas, just inside Jasper National Park, and evoked memories of "the last spike" being driven more than 100 years ago, signifying completion of a coast-to-coast national railway.

AGT also built a 220 kilometre fibre route in southern Alberta that will initially provide capacity for local network upgrading programs. This route was also designed to help meet the requirements for cross-Canada telecommunications during the early 1990's.

Fibre is currently used for urban interexchange trunking, toll connect and inter-toll trunking, and for digital entrance links to radio systems.

The network at present is made up of four basic facilities: fibre, digital and analogue microwave radio, and buried cable. Analogue microwave radio and buried cable are being phased out over subsequent years as performance and growth requirements favour the almost exclusive use of fibre optics.

Customer Lines Served by Digital Switching (%)



NETWORK SWITCHING WILL BE FULLY DIGITAL BY 1992

Telephone Operations—Business

First AGT Business Centre Opened in Edmonton

Determined to be the preferred supplier of telecommunications solutions to all Albertans, AGT continued to forge new connections in Edmonton. In November, the company opened its first Business Centre in the Alberta capital. AGT has been providing network services to Edmonton business customers for many years, but the opening of the new centre emphasizes AGT's commitment to the city.

The Edmonton Business Centre showcases the full range of data and voice network services AGT provides, including iNet 2000, which allows access to a variety of public databases; Datapac, a packet-switched data network; and WATS (Wide Area Telephone Service). It's also a demonstration centre for the Mitel line of terminal products, such as the powerful SX2000 Integrated Communications System.

AGT and Mitel Corporation signed a five-year strategic agreement in January, 1989, making AGT the sole distributor of Mitel products in Alberta. While the product distribution arrangement is significant, representing $30 million, even more important is the goal of cooperation in designing unique products and applications.

In Calgary, AGT opened the VideoForum Conference Centre in Dome Tower. From this downtown location, Calgary customers can videoconference with AGT's studio in Edmonton, or with any private studio in the world. This network offering, called VideoForum, opens a new world of possibilities for business meetings.

On the terminal side, AGT markets customized video studios. Resource industry companies were among the first to recognize the advantages of videoconferencing and 1990 will see the opening of several private studios linking Calgary head offices with other locations.

ISDN Trial Tests Future Network Services

The trial began in Alberta in May, but the verdict was foregone: ISDN will revolutionize network services.

ISDN stands for Integrated Services Digital Network, a new technology enabling the line between two points of communication to be an omnibus carrier. Therefore, phone, FAX, video and computer data can all be transmitted simultaneously on the same ISDN line.

AGT and ED TEL are sponsoring the project, and Northern Telecom is the major supplier of ISDN switching equipment. The participants include equipment manufacturers/vendors such as IBM,

DEC, NEC, Wang, Apple, Canon, Motorola and Olivetti, and several telecommunications customers, such as the University of Alberta, the Alberta government and Macleod Dixon, a large law firm.

How Network is Reshaping The Learning Curve

Moving information will always be easier than moving people. AGT's network is capable of delivering audio and video information to many locations simultaneously, allowing interaction amongst those locations. With that in mind, the company examined the concept of long distance learning and, with AT&T, ACCESS Network, the Alberta government and Athabasca University, established the Canadian Distance Learning Development Centre.

Initially, the Centre is doing research and development on distance learning and its potential uses. Eventually, the participants in the consortium will tailor the technology to their own applications.

R & D Initiative Explores Artificial Intelligence

In September, AGT began its Expert Systems Apprenticeship Program, a six month research and development project designed to introduce expert systems technology and develop its applications within AGT. Expert systems, synonymous with artificial intelligence (AI), is now an important element in computer applications for business.

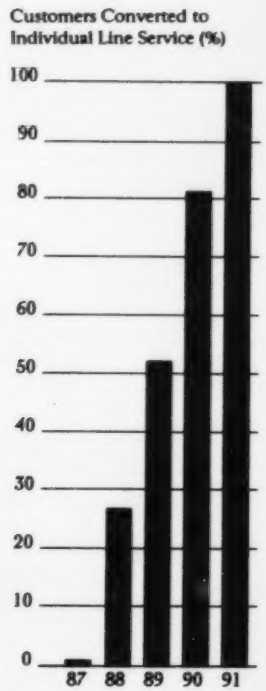
AI differs from conventional software technology, which is designed to manipulate, store and transfer numbers. AI computations are based on symbols, and it follows human reasoning patterns. It does more than simply process data; it captures the knowledge of how to use that data.

The Expert Systems program is run by Digital Equipment Canada (DEC) Ltd. AGT is the first company in the world to customize DEC's training program and first to have DEC deliver in-house training. DEC's program is usually operated from the Artificial Intelligence Centre in the U.S.

Remarkable New Facility Readied in Calgary

As 1989 drew to a close, finishing touches were made to an impressive new facility in the AGT Calgary tower: Expotel. The facility comprises three centres: the Network Management Centre (NMC), the Future Centre and the new Calgary Business Centre.

The NMC has two functions: 1) monitoring and management of the AGT core network and business customer networks; and 2) showcasing the network surveillance technology and the cooperative management between the business units of Network Services and Business Systems.



APPROXIMATELY 106,000 PARTY LINE CUSTOMERS WILL HAVE INDIVIDUAL LINES BY 1991

Rather than simply showcase voice and data products, the Business Centre is designed to offer cost-effective telecommunications applications to customers. This is accomplished by creating custom presentations dealing with specific customer needs. Customers also receive hands-on demonstrations, and can train on hardware and terminal products.

The Future Centre is based on the same concept of custom presentations and hands-on demonstrations. Customers can use Integrated Services Digital Networks (ISDN) and witness the capabilities. These include slow-scan video-conferencing, the next generation of FAX (Group 4), and shared screen, which allows people thousands of miles apart to work together on the same page of a document.

Telephone Operations—Residence

ILS Program Passes Halfway Mark

1989 was the third year of the five-year Individual Line Service (ILS) program—an important component of AGT's network upgrading.

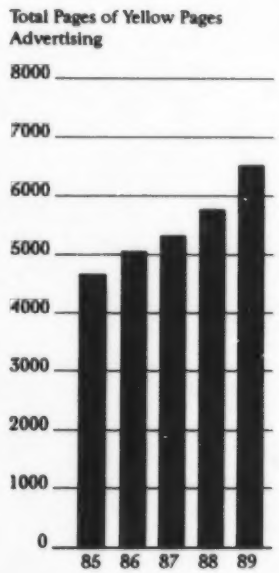
Over 26,000 Albertans saw their party lines changed to private lines. Today, 52% of the 106,000 Albertans on multi-party service, now have ILS.

ILS not only provides privacy and convenience, it gives customers access to features that are enhancing business and residential service across Alberta.

Custom Calling Services Expand Through ILS

The first generation of new features for ILS customers are Custom Calling Services: forwarding calls to another number; receiving a second call on the same line; conducting a three-way teleconference; and thirty-number speed dialing.

AGT customers were also first in Canada to have access to the next generation of Custom Calling Services. They include Call Display, which enables the customer to know who's calling before answering. Call Return provides automatic connection to the last incoming unanswered call. Call Again permits the customer encountering a busy signal to have their phone automatically scan the line for up to 30 minutes—a special ring notifies the calling customer the line is now free.



250-PAGE INCREASE FOR CALGARY YELLOW PAGES IN 1989

New EFRC Routes to Alberta Communities

In 1989, AGT added 13 Extended Flat Rate Calling (EFRC) routes, bringing the total to 377. EFRC is a service available to certain smaller communities which are typically near larger business centres. If the majority of the community wishes to pay a flat fee for all calls to that centre (as opposed to regular long distance charges), and the calling patterns of the community meet certain other criteria (community must be within 65 km of the centre, and EFRC must result in lower phone bills for at least 50% of customers), then AGT will meet this customer demand by instituting an EFRC route.

In February, "Between Friends" was introduced to customers as a convenient way to budget for long distance calling. Two plans are available–one for calls within Alberta and the other for calls within Canada and the continental U.S. By November, "Between Friends" had over 61,000 subscribers, which was 62% over the forecast for 1989.

At year end, AGT had 13,671 pay phones which generated gross revenue of $37 million. The number of pay phone stations has grown by 3.6% over 1988 and gross revenue has grown by 9%. Revenue per phone grew by 5.3%. A considerable analysis of the public telephone business was conducted in 1989. Action plans were formulated for 1990, including the introduction of new pay phone technology and phone booth designs.

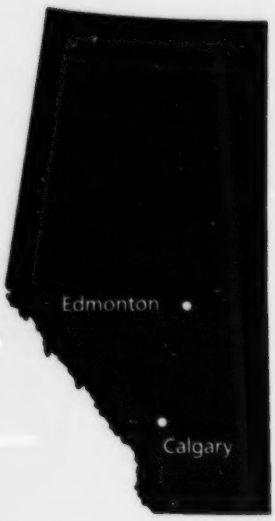
Directory

Providing Customers With The Color of Choice

Ambitious marketing, coupled with the availability of two-, three- and four-color ads to Yellow Pages advertisers throughout Alberta, accounted for an exceptional year. One measure of success was the 250-page increase to the Calgary Yellow Pages. AGT is a leader in North America in the introduction of color.

In Calgary, the Talking Yellow Pages service was enhanced significantly. Customers can refer to their Yellow Pages and call an even wider selection of recorded messages on such topics as sports, arts, entertainment, attractions, and community service.

Cellular Coverage in Alberta



■ 400 MHz ■ 800 MHz

AGT IS EXPANDING CELLULAR 800 SERVICE TO INCLUDE ALL MAJOR CENTRES AND HIGHWAYS

Mobile Communications

Continued Growth for Alberta's Largest Cellular Network

In 1989, AGT expanded its Cellular 800 network to provide wider coverage in central Alberta, as well as Medicine Hat, Pincher Creek and Brooks. Cell sites were added to improve transmission in Calgary, and service east and west of Red Deer to Stettler and Rocky Mountain House, was bolstered. Today, all major urban centres and virtually all major highway routes in southern Alberta have cellular coverage.

AGT, in cooperation with CellNet Canada, an organization which brings together the telephone companies' cellular affiliates, provides the most extensive cellular coverage in Canada.

The company, through "roaming" agreements with U.S. cellular operators, provides convenient coverage in over 300 areas in the United States.

AGT provides coverage to approximately 75% of Alberta through its Cellular 400 service, which began in 1981. The company, which builds both private and public mobile networks, supplied systems in 1989 ranging from a multi-million dollar province-wide private communications system for the Alberta provincial government, to a small radio system for the municipality of Rimby to alert volunteer fire fighters in an emergency situation.

In addition, AGT was awarded a multi-million dollar contract to expand a private mobile radio system for NorthwesTel in the Yukon. This system was originally conceived and designed by AGT and is planned to be operational in Alberta, Newfoundland and the Yukon by the end of 1990.

Unregulated Operations

NovAtel

NovAtel A Leader in North American Cellular Sales

In 1989, NovAtel Communications Ltd. had revenues approaching $300 million and employed more than 1,200 people in the research, development, manufacture and sale of cellular telephones and cellular systems worldwide.

NovAtel became a 100% subsidiary of AGT in January, 1989, when AGT purchased the shares previously held by NOVA Corporation of Alberta. NOVA and AGT formed NovAtel in 1983 to

advance their strategic interests: AGT had one of the busiest mobile radio phone networks in Canada, and NOVA, a major petrochemical company, was a large customer.

Since then, NovAtel has become a dominant player in the cellular marketplace. A unique family of decentralized system products offers affordable, fully-featured cellular service for small-to-medium-sized service areas. The novel architecture of these products offers modular growth and lower costs compared to conventional systems.

In 1989 worldwide cellular telephone sales, NovAtel captured the number two spot, surpassing several of the large electronics manufacturers. NovAtel has 25% of the Canadian market and 21% of the U.S. market, making it number one in both; it also has 9% of the U.K. market, ranking it number four. In '89, NovAtel also became the leading North American supplier of cellular telephones to consumer electronics retailers.

NovAtel completed more than 50 sales worldwide of total cellular systems in 1989. The company ranks number seven in the United States, with 6% of the U.S. market. In December 1989, NovAtel signed an agreement with General Cellular Corporation to build systems for between 40 and 75 Rural Service Area markets, worth $20 - $40 million.

NovAtel is positioning for the 1990's with construction of a $30 million manufacturing facility in Calgary and a $7 million expansion of its Lethbridge manufacturing plant. The firm is moving to secure its global presence: international distributors have been established in Buenos Aires and Hong Kong, and in December, NovAtel purchased Simonsen Communications A/S, a European producer of 450 and 900 MHz NMT cellular telephones, sold in Europe and the Far East.

Other 1989 highlights:

- received Bronze Award for Innovation in 1989 Canada Awards for Business Excellence.
- received Alberta Export Achievement Award for development and export of new products.
- expanded NorthwesTel's 400 MHz cellular system in the Yukon, Northwest Territories and British Columbia.
- completed first commercial intersystem hand-off between two cellular service providers, AGT and ED TEL. Brought cellular industry much closer to a unified North American cellular network.

Alta Telecom International Ltd.

ATI Finalizes Major European Contract

Alta Telecom International (ATI) is a wholly-owned subsidiary of AGT which deals essentially with customers outside of Alberta, including Canada and overseas. ATI provides a full range of customized services, including software systems, technical assistance, project management, advisory and training services, mobile systems and terminal products. Corporate head office is Calgary, with project offices in the Caribbean and New Zealand. In 1988, ATI opened an office in Vancouver to handle mobile systems and products throughout British Columbia.

Since its inception in 1981, ATI has earned a worldwide reputation for technical expertise and technology transfers to both public and private organizations.

ATI's mission statement is: "To provide high quality telecommunications services and technologies to selected Canadian and international clients on a profitable basis."

Resources required to fulfill contractual obligations are obtained from the parent company.

ATI has completed numerous projects in countries around the world. In 1989, the company completed a $2 million contract to supply NovAtel cellular equipment to Brunei. In Nassau, a $3 million contract was completed for BaTelCo, the Bahamas Telecommunications Corporation. During the year, final negotiations were completed for a $3 million contract to supply telecommunications software to Spain and Italy. The year also saw ATI enter into the cellular mobile terminal market. ATI is NovAtel's wholesale distributor of 800 MHz cellular phones for western Canada and attained sales of $2 million for the year.

ATInc.

In the U.S., ATI operates as ATInc. with head office in Atlanta, Georgia. ATInc.'s market area is specifically the U.S. Its primary product lines are alternate access networks, technical assistance, engineering, design and project management for all aspects of the telecommunications industry. ATInc. has a well established client base with major equipment manufacturers, the regional Bell operating companies, independent telephone companies and many Fortune 500 companies.

In 1989, ATInc. continued to supply technical assistance to major switch and transmission equipment manufacturers. The company also started construction of a US$25 million alternate access network for Eastern TeleLogic Corporation in Philadelphia, to be completed by July, 1990.

Alta-Can Telecom Inc.

Alta-Can Completes New Equity Investments

Alta-Can Telecom Inc., a subsidiary of AGT, was formed in 1982. With $15 million of capital under management, Alta-Can funds start-up businesses and facilitates expansion and diversification of existing businesses involved in advanced technologies including telecommunications, information processing, microelectronics and instrumentation. Investment interests are confined to companies with high growth potential. Alta-Can's investments are centred in Alberta and may include other parts of western Canada and the northwest U.S.

In addition to capital, Alta-Can provides financial, management, engineering and marketing expertise to its portfolio companies, and–when appropriate–access to its corporate partners. Alta-Can takes a hands-on approach to building value in its portfolio companies. As part of these activities, Alta-Can is the general partner of Spurt Investment Fund I, a $5 million Limited Partnership fund geared to equity funding of early-stage technology opportunities in Alberta.

Alta-Can's activities provide a window on changes and opportunities for its companies–in one case, engendering a growing amount of technology transfer with NovAtel.

Alta-Can manages the AGT Fund, which funds investments strategic to AGT. In both funds, 1989 saw aggressive equity investments and rationalization of existing portfolios. Restructuring of the Alta-Can management team has produced a highly capable staff. Long term planning was undertaken; the approved plan, a direction for the early 1990's, is now in place.

Community and Social Responsibilities

Consistent with our status as a leading Alberta business and major employer, AGT responds to the many needs of Albertans. The company conducts a full-time program of contributions to social services, the arts, education and economic development within Alberta.

Successful Sponsorship of Alberta Summer Games

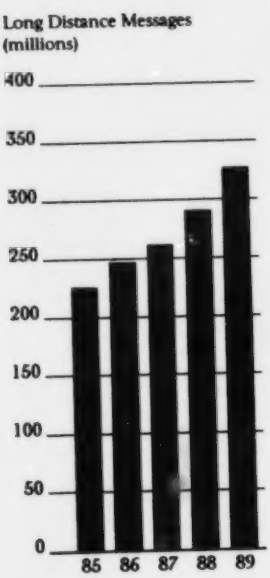
AGT was a major corporate sponsor of the Alberta Summer Games, held in the community of Brooks during August. The company provided all award medals for zone competitions, in addition to the 1,800 medals for the Games themselves. AGT also funded extensive television coverage in both Edmonton and Calgary. The 3,300 young athletes competing represented nearly twice the number of athletes in the 1988 Winter Olympics.

United Way Campaign Best Ever

AGT supports major charitable drives in Alberta, particularly United Way activities. In 1989, contributions to the United Way increased 24%. All seven operating regions met and exceeded their goals, confirming once again AGT's commitment to communities throughout Alberta. Employees and pensioners raised over $383,000, in addition to major donations on behalf of the corporation. President Hal Neldner will chair the 1990 campaign in Edmonton.

AGT Continues Unique Role with Endangered Falcon Species

For the past seven years, AGT buildings in Edmonton and Calgary have been the nesting sites for peregrine falcons, a species near extinction. Though first capturing only the attention of naturalists and wildlife experts, the falcons' yearly visits are now widely publicized, including video monitoring of nests, education lectures and widespread public interest. Why the birds chose Calgary's Len Werry building or Edmonton's Toll Building isn't known, particularly since the birds have perhaps half a dozen active nests in Alberta at any one time. AGT is dedicated to increase awareness of this threatened species and contribute to its protection.



MESSAGE VOLUME GROWTH SHOWS CONTINUED STRENGTH

The inherent value and quality of service provided to customers based on an advanced network remains the focus for AGT in sustaining the company's financial performance into the 1990's.

The company showed strong financial performance throughout 1989 despite a growth rate in the national economy of only 2.6% and 2.3% in the Alberta economy (source: The WEFA Group). Business volumes–primarily network access lines and long distance messages–experienced good growth, a number of new products and services were inaugurated, and AGT continued to set the pace in introducing new technology.

Operating Revenues

AGT's strategy is to promote the increased use of network-based products.

AGT's ongoing commitment to provide high value service has contributed to business volume growth and an increase in operating revenues of 9.3% or $100 million over 1988. After adjusting the 1988 base for the revenue refund provision of $51.8 million, year-over-year operating revenues increased by 4.3%. This adjusted growth rate exceeds the growth in the national and Alberta economies for the year.

Long distance services lead the way with revenue increasing 3.8% or $28 million over 1988, while volume increased 13% or 37.6 million messages. The lower growth rate experienced in revenues relative to messages is reflective, in part, of the reductions in rates introduced to AGT customers for long distance service in August, 1988 and for WATS in February, 1989. These rate reductions were made possible through productivity gains.

Data network revenue displayed strong growth as continuing customer utilization of private line data service, Dataroute and AltaNet, as well as increasing acceptance of Megaplan, contributed to revenue growth of 22% or $10 million.

Local service revenue increased by 2.9% or $9 million over 1988 supported by a 4.1% growth in network access lines. With respect to specific local service revenue components, telephone equipment rental and lease revenue increased 5%, service connections and moves revenue increased 4%, general mobile revenue increased 21% and public telephone service revenue increased 6%. The impact of Centron and Custom Calling Services on local service revenue is becoming increasingly significant as the capability for greater market penetration is enhanced through further investment in the network.

Cellular 800 service has demonstrated significant market acceptance and growth through a revenue increase of 96% or $3 million over 1988. Connections to the cellular mobile network have increased by over 120% year-to-year.

The continuing development of enhanced services, such as those grouped under the umbrella of Custom Calling Services, will contribute to strengthening AGT's market position as the company moves into the 1990's. Specific examples of network-based enhanced services to be introduced in 1990 include Call Again, Call Return, Call Display and Call Trace.

Capital Expenditures

AGT continues to invest in new technologies to provide the modern and efficient network demanded by our customers.

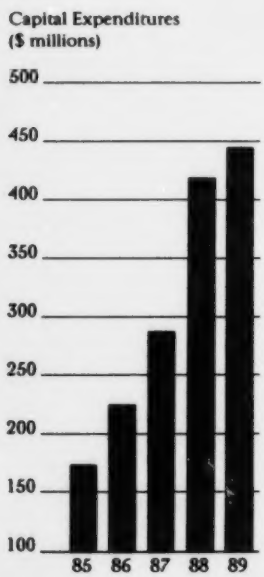
AGT's strategy is to continue investing in the latest technologies and thereby maintain its position as the dominant supplier of advanced telecommunications services in Alberta.

Capital expenditures for 1989 totalled $444 million, slightly higher than 1988 expenditures of $419 million. Included in the 1989 expenditure total is $202 million relating to the network upgrading program. In 1988 the related expenditure level was $177 million. This program covers the conversion of party line service to Individual Line Service (ILS), upgrading of the local network and toll switches, as well as improvements to the telephone plant infrastructure in Calgary.

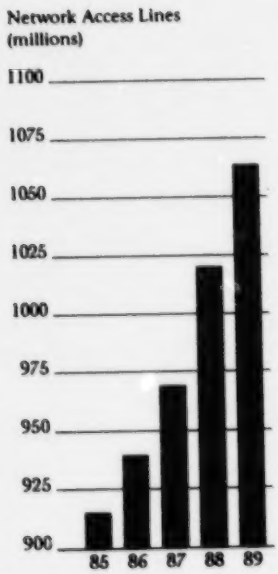
During 1989, 75 exchanges were converted to provide ILS capability, bringing the number of exchanges now converted to 60% of the total. To date, approximately 55,000 customers who previously received party line service are now receiving individual line service. By the end of the program in 1991, approximately 106,000 customers will have been converted to ILS, thereby eliminating all party lines in Alberta.

In addition to capital expended on network upgrading, a total of $122 million was expended on network expansion and development. This program includes the expansion of the cellular mobile network, the provisioning of additional fibre optic transmission systems, and the initiation of an Integrated Services Digital Network (ISDN) service trial.

Today, with advances in digital technology, the opportunity exists for customers to enjoy much more than basic telephone service. AGT's capital program includes expenditures undertaken to upgrade all switches and facilities in the network to digital technology, thus providing the capability to expand existing services throughout Alberta and to offer new services based on emerging technologies. Upgrading the network not only provides access to new services through increased network intelligence, but also provides for improved transmission quality and reliability.



REFLECTING INVESTMENTS MADE IN UPGRADING THE NETWORK



STRONG ANNUAL GROWTH OVER PAST FIVE YEARS

Operating Expenses

Investments in employees and systems, and in measures to increase productivity, will provide AGT with a competitive advantage.

Total operating expenses for the year have increased 8.2% or $67 million over 1988.

Depreciation expense has increased 9.6% or $20 million, mainly as a result of the planned acceleration in depreciation charges taken against switching equipment scheduled for upgrade.

Maintenance expenses have increased by a modest 2.2% or $4.5 million over 1988. This increase is due primarily to technological advances which have increased the average time between equipment failures and, in so doing, have reduced the frequency of scheduled maintenance.

Network traffic expenses have increased 4.2% or $1.5 million over last year. AGT continues to improve customer service and has therefore increased the average customer service interval time held as a standard for AGT telephone operators.

Commercial and marketing expenses increased 12.6% or $12 million over 1988. Advertising campaigns designed to enhance AGT's image as a supplier of total communications services, market and product development costs for new products resulting from conversion of network switches to digital, and aggressive marketing strategies in Directory, have all resulted in increased operating expenses. In addition, AGT continues to pursue development of new applications to meet the constantly changing and expanding needs of customers; examples include Talking Yellow Pages and Distance Education.

General and administration expenses have increased by 11% or $26 million over last year. Expenditures in a number of key areas reflect AGT's commitment to meeting the challenges of the 1990's. These include ongoing development of information systems, expansion of the research and development program, and further investment in human resources development programs such as Frontline Leadership training. Moreover, significant time and resources were consumed preparing for current as well as future regulatory requirements.

With respect to system development expenditures, a new message processing system was brought on-line as part of the continuing development of a new customer billing system. This message processing system will facilitate the introduction of enhanced network-based services, and as a result, will complement AGT's investment in the network. These measures will allow AGT to meet its commitment to provide quality customer service while allowing for increased productivity in operations.

Earnings and Financing

AGT's financial performance reflects a long-term commitment to investment in the network, thereby enhancing market position and customer service.

Net income increased by 27.7% over 1988 to approximately $57 million. This resulted in an overall return on average capital of 12.6% as compared to 11.6% for 1988. Cash flow from operations for the year decreased 26.1% to $208 million. This reduction is largely due to the change in non-cash working capital components, particularly accounts receivable. The significant year-over-year increase in accounts receivable is attributable to higher operating revenues and to higher receivables from other telephone companies, pursuant to established billing arrangements.

Interest and other charges increased 4.2% or $8.4 million over 1988. This increase was due to the combined effects of higher interest rates on new financing, increased funding requirements, and a one-time charge of approximately $9 million, arising from a change in accounting policy (refer to Note 6 to the Financial Statements). These increases were partially offset by increased sinking fund earnings.

The main components of AGT's investing activities in 1989 were capital expenditures related to the network upgrading program and investments in subsidiaries. During 1989, long-term debt totaling $300 million was issued at a rate of 10.5%. The embedded cost of long-term debt at year-end was 11.8% compared to 11.7% at year-end 1988. Despite higher borrowing costs experienced in 1989, interest coverage increased marginally to 1.19 from 1.17 times in 1988.

Future Prospects

Investments made today will turn the threat of increasing competition into business opportunities, enabling the company to remain a formidable competitor.

The challenges of a more open marketplace in the 1990's will be great. AGT's ongoing investment in the network will afford wider availability of enhanced services and provide the basis for the company's success. Continuing investment in cellular mobile and directory services will build on this foundation. Further investment in people and processes will complete the foundation and strengthen AGT's competitive advantage as a quality supplier of advanced telecommunications services.

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

The accompanying consolidated financial statements and information in the Annual Report are the responsibility of management and have been approved by the AGT Commission. The financial statements have been prepared in conformity with Canadian generally accepted accounting principles and of necessity include some amounts that are based on estimates and judgements. Financial information presented throughout the Annual Report is consistent with that in the consolidated financial statements.

To discharge its responsibility for the integrity and objectivity of financial reporting, management maintains a system of internal accounting controls comprising written policies, standards and procedures, a formal authorization structure, and an internal audit program. This system is designed to provide management with reasonable assurance that transactions are properly authorized, reliable financial records are maintained, and assets are adequately accounted for and safeguarded. The Company has also established a Code of Business Ethics and corporate directives which require communication of the Code to employees.

The Commission carries out its responsibility for the financial statements through its Audit Committee, which consists entirely of members of the AGT Commission. This Committee meets periodically with management and the auditors to discuss and review audit and financial matters, and recommends the financial statements to the Commission for approval. The Company's external auditor has full and free access to the Audit Committee.

The Auditor General of Alberta, the Company's external auditor, appointed through The Auditor General Act, provides an independent audit of the consolidated financial statements. The Auditor's Report follows.

On behalf of the Management,

H.M. Neldner
President and Chief
Executive Officer

F.J. Parrotta
Vice-President,
Finance

Edmonton, Alberta
January 29, 1990

AUDITOR'S REPORT

To the Members of
The Alberta Government Telephones Commission

I have examined the consolidated balance sheet of The Alberta Government Telephones Commission as at December 31, 1989 and the consolidated statements of income, retained earnings and changes in financial position for the year then ended. My examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as I considered necessary in the circumstances.

In my opinion, these consolidated financial statements present fairly the financial position of the Commission as at December 31, 1989 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied, after giving retroactive effect to the changes in accounting policy as explained in Note 6 to the financial statements, on a basis consistent with that of the preceding year.

Donald D. Salmon
FCA
Auditor General

Edmonton, Alberta
January 29, 1990

CONSOLIDATED STATEMENT OF INCOME

for the year ended December 31, 1989 *(thousands of dollars)*	1989	1988
Operating Revenues:		
Long distance service	$ 773,360	$ 745,200
Local service	332,880	323,576
Directory, rental and other service	80,891	65,400
Revenue refund (Note 11(c))	–	(51,800)
Uncollectible operating revenues	(15,857)	(11,008)
	1,171,274	1,071,368
Operating Expenses:		
Depreciation	226,290	206,534
Maintenance	205,812	201,303
Traffic	37,353	35,861
Commercial and marketing	106,781	94,853
General and administration	258,294	232,599
Property and business taxes	34,930	32,796
Pension fund (Note 3)	24,215	22,350
	893,675	826,296
Income from Operations	277,599	245,072
Building Cable Write-off (Note 4)	11,818	–
Interest Expense and Other (Notes 5 and 6)	209,148	200,730
Net Income	$ 56,633	$ 44,342

CONSOLIDATED STATEMENT OF RETAINED EARNINGS

for the year ended December 31, 1989 *(thousands of dollars)*	1989	1988
Retained Earnings, Beginning of Year:		
As reported previously	$178,554	$133,148
Prior period adjustment (Note 6)	(6,057)	(4,993)
As restated	172,497	128,155
Net Income	56,633	44,342
Retained Earnings, End of Year	$229,130	$172,497

The accompanying notes are part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION

for the year ended December 31, 1989 *(thousands of dollars)*	1989	1988
Operating Activities:		
Net income	$ 56,633	$ 44,342
Items not requiring an outlay of cash:		
Depreciation	238,928	216,142
Building cable write-off	11,818	–
Other	(12,461)	675
Sinking fund earnings	(72,044)	(59,255)
Net change in non-cash working capital components	(55,143)	34,771
Other non-current items	39,919	44,496
Cash Provided by Operating Activities	207,650	281,171
Financing Activities:		
Proceeds from long-term debt issues	300,000	200,000
Repayment of long-term debt	(124,655)	(27,171)
Increase (decrease) in notes payable	105,675	(31,379)
Cash Provided by Financing Activities	281,020	141,450
Investing Activities:		
Capital expenditures	(443,753)	(418,975)
Items not requiring an outlay of cash	33,190	38,782
Increase in materials and supplies	(20,396)	(5,872)
Decrease in net investment in leases and other	7,082	5,628
Increase in investments	(62,709)	(27,144)
Cash Used by Investing Activities	(486,586)	(407,581)
Cash and Cash Equivalents:		
Increase during the year	2,084	15,040
Balance, beginning of year	3,274	(11,766)
Balance, End of Year	$ 5,358	$ 3,274

The accompanying notes are part of these consolidated financial statements.

CONSOLIDATED BALANCE SHEET

as at December 31, 1989 *(thousands of dollars)*	1989	1988
ASSETS		
Current:		
Cash and short-term deposits	$ 5,358	$ 3,274
Accounts receivable	227,524	187,546
Inventories for resale	22,669	18,163
Prepaid expenses	22,745	19,179
	278,296	228,162
Investments (Note 6)	116,969	63,103
Net Investment in Leases and Other (Note 7)	23,648	30,730
Telecommunications Property:		
Buildings and equipment	3,546,582	3,317,305
Less: Accumulated depreciation	1,475,403	1,422,056
	2,071,179	1,895,249
Land	51,990	51,840
Plant under construction	166,095	165,912
Materials and supplies	96,564	76,168
	2,385,828	2,189,169
Deferred Charges:		
Unamortized debt discount and other	11,857	13,340
	$2,816,598	$2,524,504

On Behalf of the Commission:

Neil Webber

Dr. P.N. Webber, Chairman

W.A. Graham

W.A. Graham, Commission Member

The accompanying notes are part of these consolidated financial statements.

(thousands of dollars)	1989	1988
LIABILITIES AND RETAINED EARNINGS		
Current:		
Notes payable	$ 278,959	$ 173,284
Accounts payable and accrued liabilities	251,230	266,956
Service billed in advance	43,562	34,929
Current portion of long-term debt (Note 8(e))	2,687	107,114
	576,438	582,283
Deferred Credits:		
Deferred revenue	127,955	91,927
Unrealized exchange gain, net	2,875	1,378
	130,830	93,305
Long-term:		
Long-term debt (Note 8)	2,511,793	2,275,713
Less: Sinking fund assets (Note 9)	631,593	599,294
	1,880,200	1,676,419
Commitments and Contingent Liabilities (Note 11)		
Retained Earnings	229,130	172,497
	$2,816,598	$2,524,504

December 31, 1989

NOTE 1

Authority and Regulation

The Alberta Government Telephones Commission ("the Commission") operates under the authority of the Telecommunications Act, Chapter T-3.5, Statutes of Alberta 1988.

The Commission has been regulated by the Alberta Public Utilities Board, however, on August 14, 1989 the Supreme Court of Canada ruled that the Commission is a federal undertaking. As such, the Commission is not within the jurisdiction of a provincial regulatory agency. The Court also ruled that although the Commission is a federal undertaking, it has immunity from federal regulatory jurisdiction because it is a provincial Crown agent.

Subsequent to the Supreme Court of Canada decision, the federal government introduced legislation which, if passed, would bring the Commission under the regulatory authority of the Canadian Radio-television and Telecommunications Commission. As an interim measure, effective October 20, 1989 the Alberta Minister of Technology, Research and Telecommunications established a Ministerial Committee on Telecommunications to advise and bring forward recommendations on issues affecting the provision and introduction of telecommunications services in Alberta.

NOTE 2

Summary of Significant Accounting Policies

The accompanying consolidated financial statements have been prepared in accordance with accounting principles generally accepted in Canada, and in conformity with prevailing practices in the Canadian telecommunications industry.

(a) Consolidation

These consolidated financial statements include the accounts of wholly-owned subsidiaries, Alta Telecom International Ltd., Alta Telecom, Inc., Alta Telecom Licensing Corporation, Alta-Can Telecom Inc., and 288922 Alberta Ltd. The Commission's investment in its wholly-owned subsidiary company, NovAtel Communications Ltd. ("NovAtel"), has not been consolidated (Note 6) but is accounted for at the lower of its estimated net realizable value and the value resulting from the use of the equity method.

All significant transactions between these companies have been eliminated except for the cost of telecommunications equipment and supplies purchased by the Commission from NovAtel, which are included in the consolidated balance sheet at cost to the Commission and in the consolidated income statement. To the extent that any income related to these revenues has not been offset by depreciation or other operating expenses, it remains in consolidated income and retained earnings.

(b) Telecommunications Property

Telecommunications property is recorded at original cost and includes materials, direct labour, certain general overhead costs associated with construction activity and an allowance for funds utilized during construction. Certain

software costs are also included in telecommunications property (Note 2(h)). Materials and supplies are valued substantially at average cost.

The Commission continually reviews the application of this capitalization policy in accordance with accounting standardization policies of the Telecom Canada companies.

Resulting from this review, no significant changes in capitalization were made in 1989.

(c) Depreciation

Depreciation is provided on a straight-line basis using rates determined by a continuing program of engineering studies, calculated to allocate to operations the cost of groups of property with equal service lives over the estimated useful lives of the groups.

When depreciable telecommunications property is retired for reasons of exhausted service capacity, obsolescence, loss or destruction, the original cost of such property, adjusted by any disposal proceeds and costs of removal, is charged to accumulated depreciation. Gains or losses on disposal of depreciable telecommunications property are allocated to operations over the remaining estimated useful lives of appropriate property groups.

When depreciable telecommunications property subject to resale in the ordinary course of business (such as customer-premise equipment) is sold, the original cost of such property less accumulated depreciation is netted against the sale proceeds and the difference is reflected in local service revenues.

The composite depreciation rate for the year ended December 31, 1989 was 7.25% compared to 6.72% for the previous year. Total depreciation of $241,378,000 (1988 $218,284,000) includes $12,638,000 (1988 $9,608,000) distributed to other operating expenses and $2,450,000 (1988 $2,142,000) distributed to telecommunications property.

(d) Inventories for Resale

Inventories for resale are valued at the lower of cost or net realizable value. Cost is determined by an average cost method. Certain systems under design or installation in accordance with customer contracts include material and related engineering and installation costs incurred and remain in inventory until placed into service.

(e) Investment in Leases

Unearned finance income related to sales-type leases is recognized over the lease term to produce a constant rate of return on the investment in the lease.

(f) Amortization

Discounts on long-term monetary liabilities and other deferred charges are amortized on a straight-line basis over the remaining lives of the related assets and liabilities.

Where interest coupons and residuals are held as separate investments in sinking funds, discounts are amortized over the period to maturity or call date so as to produce a constant rate of return on the investments.

(g) Deferred Revenue

Deferred revenue relates to the capital cost of equipment rented under operating leases and to contributions from the Government of the Province of Alberta under the Individual Line Service program. Deferred revenue is recognized as income on a straight-line basis over the estimated useful life of the related equipment. The amount to be recognized as income within one year is included with service billed in advance.

Contributions credited to deferred revenue in 1989 amounted to $40,300,000 (1988 $45,392,000). The amount to be recognized as income in 1990 will be $7,193,000 (1989 $5,442,000).

(h) Software Costs

Costs of software that relate to the operation of telecommunications switches, and have an estimated useful life greater than one year, are capitalized to telecommunications property. Other software costs are expensed as incurred.

(i) Translation of Foreign Currencies

Monetary assets and liabilities in foreign currencies are translated into Canadian dollars using the temporal method. Under this method, all monetary assets and liabilities are translated at the rate of exchange in effect at the balance sheet date. Other assets and liabilities and items affecting earnings are converted at the rate of exchange in effect at the date of the transaction.

Unrealized net exchange gains or losses are deferred and amortized over the remaining lives of the related assets and liabilities.

Self-sustaining foreign operations are translated using the current rate method. Under this method, all assets and liabilities are translated into Canadian dollars at year-end exchange rates; revenue and expenses are translated at exchange rates in effect during the year. Net translation gains or losses arising from changes in exchange rates are insignificant and are treated as deferred charges.

NOTE 3

Pension Fund

The Commission maintains a contributory defined benefit final pay pension plan that covers substantially all employees. It provides pensions based on length of service and final average earnings.

Actuarial reports prepared during 1989 estimate the present value of the accrued pension benefits and the net assets available to provide for these benefits, at market-related value, as of December 31, 1989. The estimates, which were based on projections of employees' compensation levels and reflect management's best estimate of the effect of future events, are as follows:

(thousands of dollars)	1989	1988
Accrued pension benefits	$ 886,950	$769,187
Pension fund assets	1,012,348	874,230

With the Commission's contribution rate fixed in the Pension Plan regulations, no impact of the net pension asset has been reflected in the current pension expense of $24,215,000 (1988 $22,350,000).

NOTE 4

Building Cable Write-off

As a result of a change in business and marketing policy, effective April 3, 1989 the Commission passed the ownership of a significant portion of its building cable to its customers. The related undepreciated cost of this building cable, totalling $11,818,000, has been written-off in the current year.

NOTE 5
Interest Expense and Other

(thousands of dollars)	1989	1988
Interest on long-term debt	$270,416	$245,969
Less: Sinking fund income	72,044	59,255
Allowance for funds used during construction	16,228	12,319
	182,144	174,395
Loss in equity investment (Note 6)	8,843	13,442
Other, net	18,161	12,893
	$209,148	$200,730

NOTE 6
Investments

(thousands of dollars)	1989	1988
NovAtel Communications Ltd., at equity	$106,685	$54,560
Venture Capital Investments, at cost (held by Alta-Can Telecom Inc.)	6,198	4,473
Other Investments, at cost	4,086	4,070
	$116,969	$63,103

Effective January 18, 1989 the Commission purchased 100 common and 3,117,100 preferred shares of NovAtel and certain related assets, for $42,500,000 and additional consideration payable by the Commission in the event it sells NovAtel shares or technology for a premium prior to January 18, 1991.

This transaction increased the Commission's ownership from 50% to 100% of the issued and outstanding shares of NovAtel. However, the Commission's control is only temporary as it is negotiating with potential strategic partners to assume an equal interest in NovAtel.

During 1989, NovAtel changed one of its accounting policies which resulted in certain assets being written-off retroactively. The effect of this change on the Commission's 1989 consolidated financial statements is to decrease 1988 opening retained earnings by $4,993,000, to decrease 1988 net income by $1,064,000, to decrease the Commission's 1988 investment in NovAtel by $6,057,000 and to decrease 1989 net income and the investment in NovAtel by $3,758,000. In conjunction with this change, in 1989 the Commission wrote-down its investment in NovAtel by an additional $5,187,000. These 1989 and 1988 charges against net income are included in the loss in equity investment (Note 5).

In 1988, the Commission wrote-down its investment in NovAtel by $9,493,000 and reflected this as an extraordinary item on the consolidated statement of income. In the 1989 consolidated financial statements this 1988 write-down has been reclassified to loss in equity investment to give retroactive effect to a recommendation of the Canadian Institute of Chartered Accountants regarding extraordinary items.

NOTE 7

Net Investment in Leases and Other

The net investment in leases and other results from the sale of assets to customers under a lease purchase plan and from the sale of rental homes and computers to employees. Principal due within one year has been reclassified under current assets.

(thousands of dollars)	1989	1988
Total minimum lease and other payments receivable	$45,804	$58,042
Unearned finance income	(6,287)	(8,520)
	39,517	49,522
Less: Current portion	15,869	18,792
	$23,648	$30,730

NOTE 8

Long-Term Debt

(thousands of dollars)	1989	1988
Debentures payable in United States funds, maturing 1990 to 1996, bearing interest at 4.75% to 8.00%	$ 156,000	$ 201,000
Exchange premium, net, at dates of issue	10,248	13,327
Unrealized exchange loss	14,369	25,365
	180,617	239,692
Debentures payable in Canadian funds, maturing 1990 to 2003, bearing interest at 6.00% to 17.75%	2,355,133	2,155,396
Mortgages payable in Canadian funds, repayable in monthly instalments, maturing 1995 and 1999, bearing interest at 11.50% and 8.25%	10,699	11,214
	2,546,449	2,406,302
Less: Portion due within one year (Note 8(e))	34,656	130,589
	$2,511,793	$2,275,713

(a) Debentures are unconditionally guaranteed as to principal and interest by the Government of the Province of Alberta.

(b) In accordance with debenture deeds, certain issues require annual sinking fund contributions of 1.00% to 2.00% of the principal amounts outstanding. Contributions are required during periods varying from 15 to 25 years before maturity.

(c) Certain debentures have early redemption provisions at the Commission's option during periods prior to maturity varying from 1 to 3 years for Canadian dollar issues and 1 to 7 years for United States dollar issues.

(d) Anticipated requirements to meet long-term debt repayments and sinking fund provisions during the next five years are as follows:

(thousands of dollars)	
1990	$ 58,266
1991	210,209
1992	286,710
1993	55,285
1994	154,655

(e) On the consolidated balance sheet, the current portion of long-term debt has been reduced by the amount of sinking fund assets allocated to it.

NOTE 9

Sinking Fund Assets

Sinking fund assets relate to the Commission's debenture debt and consist of the following:

(thousands of dollars)	1989	1988
Investments:		
Debentures, at amortized cost:		
Government of Canada, direct and guaranteed,	$426,481	$393,797
Provincial, direct and guaranteed	123,978	109,990
Investment in the Commission's own debentures, at amortized cost	89,039	76,887
Unrealized exchange gain	8,754	9,576
	648,252	590,250
Cash	–	194
Short-term deposits	9,651	26,476
Accrued interest	5,659	5,849
	663,562	622,769
Less: Amount allocated to current portion of long-term debt (Note 8(e))	31,969	23,475
	$631,593	$599,294

The investments in the sinking fund have an approximate market value of $724,000,000 as at December 31, 1989 (1988 $630,500,000).

NOTE 10

Related Party Transactions

During 1989, the Commission purchased equipment, materials and related supplies from NovAtel in the amount of $17,312,000 (1988 $13,559,000). There were no material transactions with other related companies.

NOTE 11

Commitments and Contingent Liabilities

(a) The Commission has, through a subsidiary company, issued financial commitment letters to third parties totalling $349,540,000 (U.S.). Loans to be provided under these commitment letters will be secured by first charges on the equipment and other assets of the third parties.

In addition, this subsidiary company has signed another financing agreement. This commitment, which is subject to final contract, is for a maximum of $81,000,000 (U.S.).

Management believes that the amount ultimately to be financed as a result of making these commitments will not exceed $340,000,000 (U.S.).

(b) The Commission has agreed to provide indemnification to a Canadian bank of up to $14,175,000 (U.S.), if funds are paid out under an irrevocable letter of credit. The indemnity agreement expires in September 1996, and supports a subsidiary's activity under a construction contract. Future losses could be incurred to the extent of any draws on the indemnification, less the value of any interest in the project which the subsidiary has the option to acquire.

(c) In 1988, in anticipation of a General Rate Application and the subsequent determination of the Commission's 1988 revenue surplus, management recorded its estimate of the 1988 surplus amount. The liability accrued totalled $51,800,000 with a corresponding reduction of 1988 operating revenues.

The revenue surplus amount recorded for 1988, along with the surplus amounts previously recorded for 1986 and 1987, reduce the Commission's share of Telecom Canada revenues. It is the Commission's position that the revenue surpluses originally recorded for the years 1986, 1987 and 1988 reflect the total liability both to its customers and to the members of Telecom Canada. Consequently, in 1989 the Commission's liability for surplus 1988 revenues has been reduced by approximately $28,650,000 to reflect the Telecom Canada impact to December 31, 1989 of the 1986, 1987 and 1988 revenue surpluses. In 1990, the remaining Telecom Canada impact of approximately $4,000,000 will be recorded, which will further reduce the 1988 liability.

These impacts, for regulatory purposes, were to be reviewed and dealt with by the Alberta Public Utilities Board as part of the Commission's 1988 General Rate Application. However, as a result of the August 14, 1989 Supreme Court of Canada ruling, the Alberta Public Utilities Board no longer has regulatory authority over the Commission. Although the outcome of any future regulatory review is not determinable at this time, in management's opinion, the resolution of this issue will not have a material impact on the Commission's financial position.

If liabilities related to the above contingency are determined, they will be treated as prior period adjustments.

NOTE 12

Comparative Figures

The 1988 figures have been reclassified where necessary to conform to 1989 presentation.

	1989	1988	1987
Income Statement *(in thousands)*			
Long Distance Revenues	$ 773,360	$ 745,200	$ 711,424
Local Revenues	332,880	323,576	323,205
Other Revenues (net of Uncollectibles)	65,034	54,392	50,188
Total Operating Revenues	1,171,274	1,071,368	1,043,335
Total Operating Expenses	893,675	826,296	806,512
Interest and Other	209,148	200,730	216,973
Net Income	56,633	44,342	19,850
Balance Sheet *(in thousands)*			
Total Plant Investment	$3,764,667	$3,535,057	$3,299,157
Accumulated Depreciation	1,475,403	1,422,056	1,360,156
Long-term Debt	2,511,793	2,275,713	2,227,804
Total Assets	2,816,598	2,524,504	2,368,405
Financial Statistics			
Return on Average Capital	12.6	11.6	11.5
Times Interest Earned	1.19	1.17	1.08
% Debt to Total Capital	87.2	89.5	92.3
Capital Expenditures	$ 443,753	$ 418,975	$ 289,146
Other Statistics			
Network Access Lines	1,062,994	1,021,129	970,549
Long Distance Messages (in thousands)	327,415	289,791	264,645
Total Employees	12,080	11,592	11,119
Total Payroll (in thousands)	$ 438,481	$ 406,101	$ 397,159

Certain prior period information has been restated to reflect prior period adjustments and reclassifications.

1986	1985	1984	1983	1982	1981	1980
$ 673,558	$ 644,122	$ 616,456	$ 571,905	$ 531,545	$ 488,746	$ 428,443
318,141	338,345	314,162	263,807	254,982	223,759	190,507
46,639	45,325	49,743	55,696	39,051	21,957	17,878
1,010,797	1,027,792	980,361	891,408	825,578	734,462	636,828
755,987	714,999	712,139	689,600	690,577	596,546	498,153
209,450	267,663	257,096	231,527	191,245	136,860	113,927
22,362	22,132	12,390	(21,674)	(56,244)	1,056	24,748
$3,146,493	$2,995,319	$3,121,678	$3,045,322	$2,976,148	$2,657,077	$2,244,861
1,258,304	1,101,384	1,122,157	1,002,843	884,195	786,917	638,309
1,846,389	2,077,248	2,188,566	2,136,836	2,108,913	1,763,442	1,533,175
2,325,071	2,298,243	2,322,786	2,309,704	2,311,746	2,069,936	1,786,372
12.3	13.4	13.6	10.3	7.7	8.5	9.3
1.14	1.08	1.08	.89	.76	1.01	1.18
95.2	93.7	96.6	97.8	96.2	93.4	92.6
$ 226,165	$ 175,136	$ 207,200	$ 214,815	$ 473,516	$ 480,014	$ 380,957
938,230	915,149	887,284	869,053	861,164	839,369	783,367
248,249	236,207	214,357	205,808	205,420	198,930	177,788
11,407	11,477	11,799	11,926	12,814	13,429	12,326
$ 385,944	$ 372,435	$ 357,032	$ 359,675	$ 351,061	$ 307,995	$ 258,790

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